

**GAO**

**United States General Accounting Office**

**Report to Congressional Committees and  
Subcommittees**

**October 2000**

# **FINANCIAL AUDIT**

## **District of Columbia Highway Trust Fund's Fiscal Year 1999 and 1998 Financial Statements**



**20001102 004**



**GAO-01-41**

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# Contents

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Letter	3
Opinion Letter	6
Financial Statements	20
Balance Sheets	20
Statements of Revenues, Expenditures, and Change in Fund Balance	21
Notes to the Financial Statements	22
Forecasted Statements	28
Appendixes	32
Appendix I: Comments From the District of Columbia	32
Appendix II: Status of Prior Years' Audit Recommendations	35
Appendix III: GAO Contacts and Staff Acknowledgments	38
Tables	36
Table 1: Status of Our 1998, 1997, and 1996 Recommendations	36

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## Abbreviations

AICPA	American Institute of Certified Public Accountants
CAFR	Comprehensive Annual Financial Report
CFO	Chief Financial Officer
CIP	capital improvement plan
DPW	Department of Public Works
DCFO	Deputy Chief Financial Officer
FHWA	Federal Highway Administration
FMFIA	Federal Managers' Financial Integrity Act of 1982
LAN	local area network
OBP	Office of Budget and Planning
OMB	Office of Management and Budget
OTR	Office of Tax and Revenue
SOAR	System of Accounting and Reporting
Y2K	Year 2000





Comptroller General  
of the United States

United States General Accounting Office  
Washington, D.C. 20548

October 31, 2000

Congressional Committees and Subcommittees

This report presents the results of our audits of the financial statements of the District of Columbia Highway Trust Fund (Fund) for the fiscal years ended September 30, 1999 and 1998, and our examination of the forecasted statements of the Fund's expected conditions and operations for the next 5 years. These financial statements and the forecasted statements are the responsibility of the District's Chief Financial Officer. This report also presents (1) our opinion on the effectiveness of the District's internal control related to the Fund as of September 30, 1999, and (2) the results of our evaluation of the District's fiscal year 1999 compliance with laws and regulations as they relate to the Fund.

We conducted our work pursuant to the provisions of section 3(e) of the District of Columbia Emergency Highway Relief Act and in accordance with generally accepted government auditing standards.

We are sending copies of this report to Senator Robert C. Byrd, Senator Richard Durbin, Senator Kay Bailey Hutchinson, Senator Joseph I. Lieberman, Senator Ted Stevens, Senator Fred Thompson, Representative Dan Burton, Representative Thomas M. Davis, Representative Ernest J. Istook, Representative James P. Moran, Representative Eleanor Holmes Norton, Representative David R. Obey, Representative Henry A. Waxman, and Representative C.W. Bill Young in their capacities as Chairmen and Ranking Minority Members of Senate and House Committees and Subcommittees. We will also send copies to the Honorable Kenneth R. Wykle, Administrator of the Federal Highway Administration; the Honorable Anthony Williams, Mayor of the District of Columbia; Natwar Gandhi, Chief Financial Officer of the District of Columbia; Charles Maddox, Inspector General of the District of Columbia; Deborah K. Nichols, District of Columbia Auditor; and Alice Rivlin, Chairman of the District of Columbia Financial Responsibility and Management Assistance Authority.

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If you have any questions regarding this report, please contact Gloria L. Jarmon, Director, Health, Education, and Human Services, Accounting and Financial Management Issues, at (202) 512-4476. Key contacts and contributors to this report are in appendix III.

A handwritten signature in black ink, appearing to read "D M. Walker".

David M. Walker  
Comptroller General  
of the United States

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### **Congressional Committees and Subcommittees**

The Honorable Robert C. Smith  
Chairman  
The Honorable Max Baucus  
Ranking Minority Member  
Committee on Environment and Public Works  
United States Senate

The Honorable George V. Voinovich  
Chairman  
Subcommittee on Transportation and Infrastructure  
Committee on Environment and Public Works  
United States Senate

The Honorable Bud Shuster  
Chairman  
The Honorable James L. Oberstar  
Ranking Minority Member  
Committee on Transportation and Infrastructure  
House of Representatives

The Honorable Thomas E. Petri  
Chairman  
The Honorable Nick J. Rahall, II  
Ranking Minority Member  
Subcommittee on Ground Transportation  
Committee on Transportation and Infrastructure  
House of Representatives



Comptroller General  
of the United States

United States General Accounting Office  
Washington, D.C. 20548

To the Mayor of the  
District of Columbia

This report presents the results of our audits of the financial statements of the District of Columbia Highway Trust Fund for the fiscal years ended September 30, 1999 and 1998, and our examination of the forecasted statements of the Fund's expected conditions and operations for the next 5 years, as required by section 3(e) of the District of Columbia Emergency Highway Relief Act.<sup>1</sup> This report also presents (1) our opinion on the effectiveness of the District's internal control related to the Fund as of September 30, 1999, and (2) the results of our evaluation of the District's compliance with laws and regulations during fiscal year 1999 as they relate to the Fund.

In 1995, the Department of Transportation's Federal Highway Administration (FHWA) expressed concerns about the District's ability to provide matching funds for federal aid highway projects and maintain its existing highway system.<sup>2</sup> To address these concerns, section 2(a) of the act<sup>3</sup> temporarily waived the requirement that the District provide matching funds for federal aid highway projects for fiscal years 1995 and 1996. In addition, section 3(a) of the act<sup>4</sup> required the District to establish by December 31, 1995, a dedicated highway trust fund consisting of revenues to be used to repay the temporarily waived amounts and provide matching funds for the District's federal aid highway projects financed by FHWA. This dedicated trust fund is required to include amounts equivalent to receipts from motor fuel taxes<sup>5</sup> and to be separate from the District's

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<sup>1</sup>Public Law 104-21, 109 Stat. 257 (1995), D.C. Code Ann. section 7-134.2(e) (2000 Supplement).

<sup>2</sup>Approximately 423 of the 1,020 miles of streets and highways and most of the bridges under the District's jurisdiction are eligible for federal aid.

<sup>3</sup>D.C. Code Ann. section 7-134.1(a) (2000 Supplement).

<sup>4</sup>D.C. Code Ann. section 7-134.2(a) (2000 Supplement).

<sup>5</sup>The District of Columbia levies and collects a tax of 20 cents per gallon on motor vehicle fuels sold or otherwise disposed of by an importer or by a user or used for commercial purposes within the District of Columbia (D.C. Code Ann. section 47-2301(1981, 1995 Replacement Vol.)).

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General Fund.<sup>6</sup> The District established the trust fund as required by the act.<sup>7</sup> Motor fuel tax revenues were reported at \$31 million for fiscal year 1999.

The act establishes priorities for using the Fund's revenues to pay the District's portion of federal aid highway project costs. The first priority of the Fund is to repay FHWA for the District's share of federal aid highway project costs temporarily waived during fiscal years 1995 and 1996. For the \$10.2 million temporarily waived during fiscal years 1995 and 1996, the act provided a repayment schedule with the final payment made by the District of Columbia Department of Public Works (DPW) on September 4, 1998.<sup>8</sup>

The remaining priorities of the Fund are to reimburse the District for local capital appropriated expenditures, which are (1) the District's share (normally at 20 percent) of federal aid highway project costs, (2) the salaries of District personnel working directly on transportation capital projects, overhead costs associated with federal aid projects, and other nonparticipating costs,<sup>9</sup> and (3) the funding for local (100 percent District) capital and maintenance projects. All federal and local capital appropriated expenditures are to be paid out of DPW's Capital Operating account and then reimbursed by either FHWA or the Fund.

In addition to establishing the Highway Trust Fund account, as required by section 3(a) of the act, the District was required by section 4(b)<sup>10</sup> to

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<sup>6</sup>Unless prohibited by law (as in the case of the Fund under the act), the District's cash from all funds is combined into the General Fund's cash management pool, which is used to make transfers to all the District's checking accounts as needed. Any cash not needed for immediate disbursement is invested.

<sup>7</sup>D.C. Code Ann. section 7-134.4 (2000 Supplement).

<sup>8</sup>As required by section 3(c) of the act, D.C. Code Ann. section 7-134.2(c) (2000 Supplement), half of the balance of these amounts was repaid in each of the 2 fiscal years following those in which the amounts were temporarily waived. One-half of the \$2.2 million waived in fiscal year 1995 was due and repaid as of September 30, 1996, and the remaining half was due and repaid at the end of fiscal year 1997. Likewise, of the \$8 million waived in fiscal 1996, half was due and repaid at the end of fiscal year 1997, with the remaining half due and paid at the end of fiscal year 1998.

<sup>9</sup>These include the District's expenditures for costs not eligible under the federal aid highway program, such as the costs for sewer cleaning, storm drain improvements, and retaining walls.

<sup>10</sup>D.C. Code Ann. section 7-134.3(b) (2000 Supplement).

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establish an independent revolving fund account, separate from its Capital Operating account, to make prompt payments to contractors working on federal aid highway projects. On May 28, 1996, the District established the Revolving Fund account by transferring \$5 million from the Capital Operating account. According to District officials, they do not intend to reimburse the Capital Operating account until fiscal year 2004 or at such time that it is determined that funds in the Highway Trust Fund are sufficient to maintain operations.

We are required by section 3(e) of the act<sup>11</sup> to audit the Fund and submit a report to the Congress by December 31 of each year, or 3 months after the close of the fiscal year, beginning in 1996. The audit is of the Fund's Balance Sheet and Statement of Revenues, Expenditures, and Change in Fund Balance for the fiscal year ending September 30 and an examination of the District's forecasted statements of the Fund's expected condition and operations for the next 5 years. We issued our initial report on this Fund due December 1996 in December 1997<sup>12</sup> followed by the second and third years' reports due December 1997 and 1998 in September 1998 and 1999, respectively.<sup>13</sup> As we noted in those reports and in an earlier letter to congressional Committees dated November 4, 1996, due to the timing regarding the District-wide financial statements (due February 1, after the September 30 year-end close), the submission of the forecasted statements (due June 15, after year-end close), and the availability of supporting documentation from the District, we will not be able to meet the future December 31 reporting deadlines required by the act.<sup>14</sup>

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<sup>11</sup>D.C. Code Ann. section 7-134.3(e) (2000 Supplement).

<sup>12</sup>*Financial Audit: District of Columbia Highway Trust Fund's 1996 Financial Statements* (GAO/AIMD-98-30, December 15, 1997). We were unable to give an opinion on the financial statements of the Fund because of a lack of evidence supporting \$3.7 million or 36 percent of capital appropriated expenditures that limited the scope of our work.

<sup>13</sup>*Financial Audit: District of Columbia Highway Trust Fund's Fiscal Year 1997 Financial Statements* (GAO/AIMD-98-254, September 30, 1998) and *Financial Audit: District of Columbia Highway Trust Fund's Fiscal Year 1998 and 1997 Financial Statements* (GAO/AIMD-99-263, September 28, 1999).

<sup>14</sup>For fiscal year 1999, which ended September 30, 1999, the District did not issue its Comprehensive Annual Financial Statements (CAFR) until April 28, 2000, and the Fund's financial and forecasted statements until September 18, 2000.

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In our audits, we found the following.

- The financial statements for fiscal years 1999 and 1998 are presented fairly in conformity with generally accepted accounting principles.
- The District did not maintain effective internal control over financial reporting (including safeguarding of assets) related to the Fund as of September 30, 1999. We found a new material weakness related to accounting for expenditures and continued to find weaknesses in computer system general controls.
- There was a reportable noncompliance with one of the laws we tested relating to the licensing and bonding of motor vehicle fuel wholesalers/businesses.
- The underlying assumptions made and methodology used to develop the Fund's revised forecasted statements provided a reasonable basis for such statements, and the statements were presented in conformity with guidelines established by the American Institute of Certified Public Accountants (AICPA).

The following sections outline each finding in more detail and discuss our conclusions and the scope of our audit.

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## Opinion on Financial Statements

In our opinion, the financial statements present fairly, in all material respects, in conformity with generally accepted accounting principles, the Fund's assets and liabilities as of September 30, 1999 and 1998 and its revenues, expenditures, and changes in fund balance for the years then ended. However, misstatements may nevertheless occur in other financial information reported by the Fund as a result of the internal control weaknesses described in the following section.

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## Adverse Opinion on Internal Control

We have examined management's assertion that the District maintained effective internal control related to the Fund as of September 30, 1999. Management based its assertion on criteria established under the Federal Managers' Financial Integrity Act of 1982 (FMFIA)<sup>15</sup> and Office of Management and Budget (OMB) Circular A-123, *Internal Control Systems*.

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<sup>15</sup>FMFIA requires agency managers to evaluate and report annually to the President and the Congress on the adequacy of their internal controls and accounting systems and what is being done to correct identified problems.

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Management asserted that its internal control structure was effectively designed to meet the following control objectives:

- reliability of financial reporting—transactions are properly recorded, processed, and summarized to permit the preparation of financial statements and stewardship information in conformity with generally accepted accounting principles, and assets are safeguarded against loss from unauthorized acquisition, use, or disposition and
- compliance with applicable laws and regulations—transactions are executed in accordance with the laws governing the use of budget authority and with other laws and regulations that could have a direct and material effect on the Fund's financial statements.

In our opinion, because of the effect of the material weaknesses relating to controls over the Fund's expenditures and information system controls, the District did not maintain effective internal control related to the Fund as of September 30, 1999, based on FMFIA and OMB established criteria.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that errors, fraud, or noncompliance in amounts that would be material to the financial statements may occur and not be detected on a timely basis by employees in the normal course of performing their duties. Our examination disclosed material weaknesses in the design and operation of the District's internal control components as of September 30, 1999. These conditions were considered in determining the nature, timing, and extent of audit tests applied in our audit of the fiscal year 1999 financial statements, and our opinion on the District's internal control related to the Fund does not affect our opinion on the financial statements dated September 22, 2000. Unaudited information of the Fund, as reported by the District, may also contain misstatements resulting from these weaknesses.

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## Expenditures

DPW lacked the controls to ensure that capital expenditure costs were properly allocated and billings to the Fund were accurate and valid expenses. These weaknesses in expenditure procedures resulted in the District not taking advantage of the reimbursements available from FHWA. Thus, the District over billed the Fund almost \$2.4 million when those costs should have been billed to and reimbursed by FHWA.

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Our test of 111 statistically selected expenditure transactions revealed that 11 transactions totaling \$1.6 million were not allocated to ensure that the proper amounts were charged to the Fund or billed to FHWA. As with most federal highway related projects, there is a federal share and local match of total project costs, with the Fund usually responsible for 20 percent and the FHWA with the remaining 80 percent. In the 11 instances noted above, the cost allocations were not performed properly to ensure that correct costs were billed to the Fund and reimbursements sought for the FHWA share. For example, for one contractor bill of \$521,855, 20 percent was payable by the Fund and the remaining 80 percent by FHWA. However, the entire amount was billed to the Fund, resulting in a \$417,484 overstatement of expenditures charged to the Fund. When DPW officials were notified of these errors, they reviewed all fiscal year 1999 expenditure transactions over \$50,000. Along with our statistically selected items, more than 70 percent of the expenditure population was tested and reviewed for accurate cost allocations. As a result of the DPW review, another \$768,000 of costs that were not accurately allocated between FHWA and the Fund were identified.

According to our analysis, either operator or system errors caused these improper billings. DPW officials attributed the problems to unfamiliarity with the new financial management system and system setup errors. As a result of these findings, we noted the need for DPW to perform a similar review of its fiscal year 2000 transactions to ensure that this problem does not continue in future years. DPW officials agreed to perform the review. We will evaluate the status of that review during our fiscal year 2000 audit.

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#### Information System Controls

DPW relies extensively on computerized information systems to process, account for, and report on the Fund's financial activities. Therefore, effective information system general controls<sup>16</sup> are essential to ensure that the Fund's financial information systems and data are adequately protected from inadvertent or deliberate modification, fraudulent use, improper disclosure, and disruption of operations. For fiscal year 1999, as in

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<sup>16</sup>Information system general controls affect the overall effectiveness and security of computer operations as opposed to being unique to any specific computer application. They include security management, operating procedures, software security features, and physical protection designed to ensure that access to data and programs is appropriately restricted, only authorized changes are made to computer programs, computer security duties are segregated, and backup and recovery plans are adequate to ensure continuity of essential operations.

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subsequent years, our audit identified serious and pervasive control weaknesses in all information system general control areas. Consequently, the Fund's information system general controls remain ineffective. These information system general control weaknesses also place other District financial, payroll, personnel, and tax information that is maintained on the same computer system at risk.

On October 1, 1998, the District implemented a new financial management system—the System of Accounting and Reporting (SOAR), which is processed on a mainframe computer at the District's SHARE data center. DPW uses SOAR, which also supports other District financial operations, to process, account for, and report on the financial activities of the Fund. In addition, DPW relies on its local area network, the District's wide area network, and the Internet to transmit information to SOAR. As a consequence, responsibility for computer security for DPW files and applications is shared between several District functions including (1) DPW for local area network support, (2) SHARE for mainframe and network services, and (3) the Office of the Chief Technology Officer for wide area network functions.

For fiscal year 1999, we found serious and pervasive weaknesses in controls over access to District systems, including DPW. For example, the District did not adequately limit the access of authorized users or effectively manage user identifications and passwords. The District also had not established effective controls to prevent individuals from gaining unauthorized access to District systems. The District's access control weaknesses were further compounded by ineffective procedures for overseeing and monitoring systems for unusual or suspicious access activities. In addition, the District was not (1) providing adequate physical security for its computer and network facilities, (2) assigning duties in such a way as to segregate incompatible functions, (3) controlling changes to powerful system software and key financial applications, or (4) developing and testing disaster recovery plans to maintain or regain critical functions in emergency situations. If the District does not adequately mitigate these weaknesses, unauthorized individuals could gain access to critical hardware and software where they may intentionally or inadvertently add, alter, or delete sensitive financial data or computer programs. Such individuals could also obtain District taxpayer information and use it to disrupt operations or engage in fraudulent activities using names and related personal information.

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A primary reason for the District's information system control problems is that it does not have a comprehensive computer security management program. Our study of security management best practices<sup>17</sup> found that organizations successfully managed their information security risks through an ongoing cycle of activities coordinated by a central focal point. This management process involves (1) assessing risk to determine computer security needs, (2) developing and implementing policies and controls that meet these needs, (3) promoting awareness to ensure that risks and responsibilities are understood, and (4) instituting an ongoing program of tests and evaluations to ensure that policies and controls are appropriate and effective. However, the District had not instituted a framework that included any of these key elements of a security management program. Such a program, if properly implemented, would provide the District with a foundation for resolving existing computer security problems and effectively managing its information security risks on an ongoing basis. The District's program should integrate the unique security requirements and procedures of DPW and other District entities.

We plan to describe the weaknesses, summarized above, in more detail in a separate report to the Mayor. Because the objective of our work was to assess the overall effectiveness of information general controls, we did not fully assess all computer controls. Consequently, additional vulnerabilities could exist.

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#### Compliance With Laws and Regulations

Except as noted below, our tests for compliance with the provisions of selected laws and regulations disclosed no other instances of noncompliance that would be reportable under generally accepted government auditing standards. However, the objective of our audit was not to provide an opinion on overall compliance with laws and regulations. Accordingly, we do not express such an opinion.

D.C. Code Ann. section 47-2303 requires that wholesalers/businesses obtain import licenses to distribute motor vehicle fuel within the District. The law requires that an applicant for a license pay an annual license fee of \$5 and obtain a motor vehicle fuel bond in the approximate sum of three times the average monthly motor fuel tax due from the applicant during the preceding 12 months or estimated for the succeeding 12 months, but in no

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<sup>17</sup>*Information Security Management: Learning From Leading Organizations* (GAO/AIMD-98-68, May 1998).

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event less than \$5,000 or more than \$100,000. Similar to our prior year's finding, we continued to find that the District had been accepting bonds filed by wholesalers for amounts less than the amounts required by the law. We found that seven wholesalers were underbonded by a total of \$94,500. These errors were due to incorrect calculations in determining the average monthly motor fuel tax. Office of Tax and Revenue (OTR) officials agreed and stated that they would reevaluate their bond calculation procedures to ensure that averages are calculated properly.

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## Unqualified Opinion on Forecasted Statements

The act requires that the District prepare and that we examine the forecasted statements of the Fund's expected conditions and operations for the next 5 years. These forecasts are required to determine the District's ability to meet future local matching requirements under the federal highway program for capital improvements to the District's transportation system. On June 9, 2000, the District prepared the *Fiscal Year 2001 to 2006 Highway Trust Fund Capital Improvements Plan (CIP)* and *Fiscal Year 2001 Capital Budget* and submitted it to the Congress for review and approval. The budget included a 7-year financial forecast for the Fund.

Our examination of the CIP submitted in June 2000 identified that the District continues to lack an adequate review process of its forecasted statements prior to submission to the Congress. While the District has developed procedures governing the preparation, coordination, and approval of its forecasts, we noted that additional procedures are needed to ensure that changes made to projected amounts during the review process are communicated to the originating offices or agencies. For example, we noted that the Office of Budget and Planning (OBP) did not approve \$528,000 of DPW's projected expenditures during its review process and the amounts were removed from DPW's original projections. Consequently, these reductions were not considered in the calculation of the projected interest earnings. OBP did not communicate this reduction with DPW, nor were interest earnings recalculated based on OBP's adjusted expenditure amounts. As a result, the ending cash balance projections submitted to the Congress were understated. This is the third consecutive year that revisions were needed to the CIP submitted to the Congress to reflect a proper presentation of projections in accordance with AICPA guidelines. While the impact of the above revisions were insignificant (averaging \$37,000 per year), we are concerned about the continual need to revise the forecasts after submission to the Congress.

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In our opinion, the accompanying forecasted statements, as revised on September 22, 2000, are presented in conformity with guidelines for presentation of forecasted information established by AICPA. The underlying assumptions made and methodology used to develop the statements provided a reasonable basis for the first 5 years of the 7-year forecast. However, there will usually be differences between forecasted and actual results because events and circumstances frequently do not occur as expected, and those differences may be material. We have no responsibility to update this report for events and circumstances occurring after the date of this report.

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## Objectives, Scope, and Methodology

Management is responsible for

- preparing the Fund's financial statements in conformity with generally accepted accounting principles,
- maintaining effective internal control,
- complying with applicable laws and regulations, and
- preparing 5-year forecasted statements of the Fund's expected conditions and operations in accordance with standards established by AICPA.

We are responsible for (1) obtaining reasonable assurance about whether the financial statements are free of material misstatement and presented fairly in all material respects, in conformity with generally accepted accounting principles, and (2) expressing an opinion on the effectiveness of the District's internal control related to the Fund based on our examination.

We are also responsible for testing compliance with selected provisions of laws and regulations that have a direct and material effect on the financial statements. In addition, we are responsible for expressing an opinion on whether the forecasted statements are presented in conformity with AICPA guidelines and for determining whether the assumptions used provide a reasonable basis for the preparation of the statements.

In order to fulfill these responsibilities, we

- examined, on a test basis, evidence supporting the amounts and disclosures in the financial statements;
- assessed the accounting principles used and significant estimates made by management;

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- evaluated the overall presentation of the financial statements and the 5-year forecasted statements;
  - obtained a sufficient understanding of internal control related to financial reporting, including safeguarding assets and compliance with laws and regulations;
  - tested relevant internal controls over financial reporting, including safeguarding assets and compliance with laws and regulations, and examined management's assertion about the effectiveness of internal control;
  - tested compliance with selected provisions of the following laws: (1) D.C. Procurement Practices Act of 1985, (2) D.C. Quick Payment Act of 1984, (3) D.C. Emergency Highway Relief Act, and (4) D.C. Code Ann. section 47-2303; and
  - examined the assumptions made and methodology used for the first 5 years of the District's 7-year forecast of the Fund's expected conditions and operations and the preparation and presentation of the forecasted statements.

We did not evaluate all internal controls relevant to operating objectives as broadly defined by FMFIA, such as those controls relevant to preparing statistical reports and ensuring efficient operations. We limited our internal control testing to those controls necessary to achieve the objectives outlined in our opinion on internal control.

We did not test compliance with all laws and regulations applicable to the Fund. We limited our tests of compliance to those that we deemed applicable to the financial statements of the Fund. We caution that noncompliance other than that discussed in this report may occur and not be detected by these tests and that such testing may not be sufficient for other purposes.

We conducted our work in accordance with generally accepted government auditing standards. We requested comments on a draft of this report from the Mayor of the District of Columbia or his designee. The District's CFO provided us with written comments that are discussed in the "District Comments and Our Evaluation" section and are reprinted in appendix I.

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## Recommendations

The follow-up procedures we conducted identified that 13 of 14 recommendations outstanding from our fiscal year 1998 and 1997 and 1996 audit reports were implemented or are no longer applicable. Appendix II indicates the current status of those recommendations. We reaffirm the

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open recommendation made to OTR's CFO that it enforce the implementation of the bond licensing requirements for motor fuel wholesalers operating in the District.

To address the newly reported capital expenditure related material weakness identified in this report, we recommend that DPW's CFO

- establish procedures to properly calculate the percentage of project costs to be charged to the Fund or billed to the Federal Highway Administration and
- examine all expenditure transactions for fiscal year 2000 to ensure that the capital expenditure costs that were charged to the Fund or billed to the Federal Highway Administration are correct.

To address the weakness identified in the District's preparation of forecasted statements to the Congress, we recommend that the CFO establish additional procedures requiring the communication and evaluation of all changes made during the review process to the appropriate officials or agencies involved in preparing the revised data. This communication should ensure that the impact of any changes made during the review process are evaluated and applied throughout the forecasted statements.

The recommendations to address the material weaknesses in information system controls identified in this report will be included in the separate report to the Mayor along with a detailed description of those weaknesses.

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## District Comments and Our Evaluation

The District's CFO agreed with our recommendations. The CFO also described actions taken or planned by the District to address each finding. The effectiveness of the actions taken by the District will be evaluated as part of the annual audit of the Fund's fiscal year 2000 financial statements.

The District's CFO, while agreeing with our recommendation to establish procedures to properly calculate the percentage of project costs charged to the Fund and FHWA, pointed out that DPW had identified billing discrepancies during fiscal year 1999 prior to our audit. He pointed out that the accounting and billing adjustments for these errors were not made until the project codes used for allocating costs in the SOAR biller module were reprogrammed in fiscal year 2000. However, as previously discussed in this report, our audit of capital expenditures for fiscal year 1999 identified additional project costs throughout the year that were improperly allocated

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and not previously discovered by DPW. We therefore recommended that DPW review all capital expenditure transactions for fiscal year 1999 to determine that project costs were properly charged to the Fund or billed to FHWA. DPW's follow-up review in response to this recommendation identified additional errors. In order to provide assurances that future project costs will be charged to the District or billed to the federal government, the District must establish and accurately apply procedures to properly allocate project costs between the Fund and FHWA.



David M. Walker  
Comptroller General  
of the United States

September 22, 2000



# Financial Statements

## Balance Sheets

**DISTRICT OF COLUMBIA HIGHWAY TRUST FUND  
COMPARATIVE BALANCE SHEETS  
SEPTEMBER 30, 1999 and 1998**

ASSETS	<u>1999</u>	<u>1998</u>
<b>Current Assets:</b>		
Cash and Investments	\$59,534,981	\$51,281,131
Receivables-Motor fuel tax revenues	3,493,613	2,312,399
Due from General Fund	<u>1,662,263</u>	<u>6,749,202</u>
<b>Total Assets</b>	<u>\$64,690,857</u>	<u>\$60,342,732</u>
 <b>LIABILITIES AND FUND BALANCE</b>		
<b>Current Liabilities:</b>		
Payables:		
Refunds	145,769	4,997
Capital operating account	<u>1,673,134</u>	<u>12,178,175</u>
<b>Total Current Liabilities</b>	1,818,903	12,183,172
<b>Long-Term Liabilities:</b>		
Payables:		
Retainages	1,505,961	570,441
Capital operating account	<u>5,000,000</u>	<u>5,000,000</u>
<b>Total Liabilities</b>	8,324,864	17,753,613
<b>Fund Balance:</b>		
Restricted	<u>56,365,993</u>	<u>42,589,119</u>
<b>Total Liabilities and Fund Balance</b>	<u>\$64,690,857</u>	<u>\$60,342,732</u>

The accompanying notes are an integral part of these financial statements.

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**Financial Statements**

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**Statements of Revenues, Expenditures, and Change in Fund Balance**

**DISTRICT OF COLUMBIA HIGHWAY TRUST FUND  
COMPARATIVE STATEMENTS OF REVENUES, EXPENDITURES  
AND CHANGE IN FUND BALANCE  
FOR THE YEARS ENDED SEPTEMBER 30, 1999 AND 1998**

<b>Revenues</b>	<b>1999</b>	<b>1998</b>
Motor Fuel Tax	\$31,073,369	\$30,639,673
Interest Income	<u>2,336,187</u>	<u>2,237,976</u>
<b>Total Revenues</b>	<b><u>\$33,409,556</u></b>	<b><u>\$32,877,649</u></b>
 <b>Expenditures</b>		
Capital Appropriated Expenditures:		
Design, site, construction, and equipment costs	\$ 15,108,925	\$ 17,880,255
Project management costs	1,771,701	2,874,950
Nonparticipating costs	2,752,056	4,387,294
Repayment of federal highway administration advance	<u>                        </u>	<u>(3,995,348)</u>
<b>Total Expenditures</b>	<b><u>\$19,632,682</u></b>	<b><u>\$21,147,151</u></b>
<b>Excess of Revenues over Expenses</b>	<b><u>13,776,874</u></b>	<b><u>11,730,498</u></b>
Fund Balance as of October 1	<u>42,589,119</u>	<u>30,858,621</u>
<b>Fund Balance as of September 30</b>	<b><u>\$56,365,993</u></b>	<b><u>\$42,589,119</u></b>

The accompanying notes are an integral part of these financial statements.

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## Financial Statements

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### **Notes to the Financial Statements**

**DISTRICT OF COLUMBIA HIGHWAY TRUST FUND  
NOTES TO THE FINANCIAL STATEMENTS  
SEPTEMBER 30, 1999**

#### **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

##### **BACKGROUND**

The District of Columbia Emergency Highway Trust Fund Act, Public Law 104-21, 109 Stat. 257, August 4, 1995, D.C. Code Ann. Sections 7-134.1 through 7-134.3, allowed the federal government to increase its share of eligible project costs to fund the District of Columbia's (District) share of highway project costs under Title 23 United States Code, for fiscal years 1995 and 1996. The Act also required the District to establish a highway trust fund and revolving fund account to finance and pay for highway projects.

Consistent with the act's requirements, the District established a highway trust fund separate from the general fund. The Highway Trust Fund is comprised of amounts equivalent to all motor vehicle fuel tax receipts, fees, civil fines and penalties collected by the District pursuant to Chapter 23 of Title 47 of the D.C. Code Ann. The receipts are required to be deposited to the fund by the Mayor on a monthly basis. The amounts in the fund are to be sufficient to repay the Department of Transportation's Federal Highway Administration (FHWA) for the increased federal share of project costs during fiscal years 1995 and 1996, and to pay the District's cost-sharing requirements for eligible federal-aid highway projects under Title 23, United States Code beginning with fiscal year 1997. (D.C. Code Ann. Section 7-134.4.)

Also consistent with the act's requirements, the District established a revolving fund account separate from the capital account of the Department of Public Works and reserved for the prompt payment of contractors completing federal-aid highway projects in the District.

##### **BASIS OF PRESENTATION**

The District uses the Highway Trust Fund to report on the Fund's financial position and the results of its operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain District functions or activities. A fund is a separate entity with a self-balancing set of accounts.

The Highway Trust Fund is an agency fund, which is used to account for the monies held in escrow by the District as an agent for the motor vehicle fuel taxes and fees collected for the District's share of federal-aid highway projects. The District accounts for the construction of federal-aid highway projects, which are mostly financed by FHWA grants in the Capital Projects Fund. The monies from the Highway Trust Fund are transferred on a reimbursement basis into the Capital Projects Fund to cover the District's share of the federal-aid highway projects.

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## Financial Statements

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### **DISTRICT OF COLUMBIA HIGHWAY TRUST FUND NOTES TO THE FINANCIAL STATEMENTS SEPTEMBER 30, 1999**

#### **BASIS OF ACCOUNTING**

The modified accrual basis of accounting is used for the Highway Trust Fund. Under the modified accrual basis of accounting, revenues are recognized when they become both measurable and available. "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon thereafter to be used to pay liabilities of the current period.

Those revenues susceptible to accrual are sales and use taxes and interests. Sales and use taxes are recognized as revenue when the sale and use take place. Interest is recognized as revenue through the passage of time.

#### **CASH AND INVESTMENTS**

Highway Trust Fund cash is deposited in First Union National Bank. The funds are invested for varying duration depending on the timing of the need to pay expenditures. The law (DC Law 12-56, "Financial Institutions Deposit and Investment Amendment Act of 1997") repealed the previous law (DC Code 47-341) effective March 18, 1998, and provides the District much more flexibility in its investment choices. Through September 30, 1999, the District has invested Highway Trust Fund cash in obligations of the United States or its agencies through repurchase agreements. Such investments are considered to be the equivalents of cash because they are low-risk, short-term (90 days or less) investments.

#### **RECEIVABLES AND PAYABLES**

Taxes receivable are taxes levied by the District and interest penalties on delinquent taxes which have not been collected, canceled, or abated, less the portion of the receivables estimated not to be collectible. Accounts receivable/payable are amounts owed by/to customers or vendors for goods and services sold or purchased. Interfund receivables/payables or transfers in/out are amounts owed or conveyed between funds in the primary government. Amounts due within 1 year are classified as current receivables/payables in the balance sheet.

#### **RESTRICTED ASSETS AND LIABILITIES**

All assets are restricted as to use by legal or contractual agreements. The Highway Trust Fund includes certain assets and liabilities arising from dedicated taxes that are legally restricted for certain highway projects.

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## Financial Statements

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### **DISTRICT OF COLUMBIA HIGHWAY TRUST FUND NOTES TO THE FINANCIAL STATEMENTS SEPTEMBER 30, 1999**

#### **ESTIMATES**

The preparation of financial statements and 7-year forecasted statements, in conformity with generally accepted accounting principles, requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

#### **CURRENT ASSETS**

Cash and Investments - As required by law, the bank balance was entirely insured or collateralized with securities held by the bank's agent in the District's name. The carrying amount and bank balances of deposit as of September 30 are listed below:

	<b>1999</b>	<b>1998</b>
Highway Trust Fund Account	\$ 53,228,173	\$43,101,131
Revolving Fund Account	6,306,808	8,180,000
Total	\$ 59,534,981	\$51,281,131

Receivables – Motor fuel tax revenues – represents motor fuel recognized as of September 30, which were subsequently collected.

Due from General Fund – The Highway Trust Fund (Fund 320) participates in the pooled cash process of the District of Columbia. Although the accounting is maintained separately by fund, certain treasury-controlled accounts are used for some of the transactions. At year-end, there is an accounting performed whereby a due to/due from with the general fund is determined. In the case of Fund 320, these treasury-controlled accounts had deposits in excess of payments.

#### **CURRENT LIABILITIES**

Refunds – represent refunds due to Greyhound Bus Company and other owners of out of town buses who pay the motor fuel tax but are due a rebate on the amount of fuel used outside of the District.

Capital Operating Fund – represents fiscal year expenditures paid from the operating fund which are reimbursable from the Highway Trust Fund.

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## Financial Statements

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### DISTRICT OF COLUMBIA HIGHWAY TRUST FUND NOTES TO THE FINANCIAL STATEMENTS SEPTEMBER 30, 1999

#### LONG-TERM LIABILITIES

Certain payables that the District does not expect to pay within 1 year are classified as long-term liabilities:

Retainages Payable - In accordance to FHWA construction contracts, the District withholds a percentage of costs incurred by contractors until the completion of certain segments of work.

Capital Operating Account Payable - The District's Capital Project Fund advanced \$5 million in 1996 to establish the Highway Trust Fund revolving bank account. Repayment of this amount is not expected prior to fiscal year 2004.

#### REVENUES

The Highway Trust Fund revenue consists of use taxes earned on motor fuel sold, at the wholesale level, in the District from October 1 through September 30 for each fiscal year (DC Law 11-184, D.C. Code Ann. Section 7-134.4, Title I, Section 102 (c)), and interest revenue earned from short-term (overnight) investment of cash in the Highway Trust Fund and revolving fund accounts.

#### EXPENDITURES

The total represents capital appropriated expenditures for the period October 1 through September 30 for each fiscal year. These expenditures that are payable from the Highway Trust Fund include the following:

- The District's share of federal-aid highway project costs,
- in-house capital outlay labor costs (DPW personnel), and
- 100 percent of the locally funded capital projects during fiscal year 1999.

#### PRIOR PERIOD ADJUSTMENT

Subsequent to the issuance of the unaudited financial statements for the fiscal year ended September 30, 1999, retained amounts due to construction contractors were incurred but not recorded as of September 30, 1998. As a result, the fiscal year 1998 financial statements have been restated. The \$570,441 restatement increased the 1998 design, site, construction, and equipment costs of the Fund's capital appropriated expenditures and the related retainages payable accounts, resulting in a decrease in the September 30, 1998, fund balance.

**DISTRICT OF COLUMBIA HIGHWAY TRUST FUND  
NOTES TO THE FINANCIAL STATEMENTS  
SEPTEMBER 30, 1999**

**FORECASTED STATEMENTS**

The 7-year forecast, which is published for fiscal year 2001 Capital Budget and fiscal year 2000 through 2006 Capital Improvement Plan, present, to the best of management's knowledge and belief, the Highway Trust Fund's expected cash flows for fiscal years 2000 through 2006. Accordingly, the forecast reflects management's judgment as of June 27, 2000, the date of the forecast, of the expected conditions, operations, and its expected course of action. The assumptions disclosed herein are those that management believes are significant to the forecast. There will usually be differences between the forecasted and actual results because events and circumstances frequently change due to the nature of the activities (major design and construction), and those differences may be material.

The 7-year forecasted statements are based on the following assumptions:

- The Highway Trust Fund columns represent the local revenue sources and the District's share of project expenditures that are subject to the Federal Aid match.
- The Federal Aid columns represent the Federal Aid commitment balances and projection of matching grants for known highway projects.
- The fiscal year 1999 amounts are based on actual amounts included in the District's fiscal year 1999 Comprehensive Annual Financial Report (CAFR). This includes the beginning Highway Trust Fund balances for the local share and federal aid. The local share equals the audited cash and investment amounts as of September 30, 1998, plus the fiscal year 1999 collections of receivables as of September 30, 1998, less, the fiscal year 1999 payments of the audited outstanding liabilities as of September 30, 1998. The Federal Aid amount includes the federal share of FHWA financed projects in progress or completed, but not closed out.
- Interest earned is estimated based on a 5.75-percent annual interest rate on the rolling monthly average cash balance.
- The estimated uses for project management, nonparticipating costs, and design, site construction, and equipment costs are based on the actual estimated completion date for the phase of each federal-aid highway project. The project management and design, site, construction, and equipment costs, which are eligible for federal aid match, are allocated based on the federal and local share of each individual project. The nonparticipating costs are those costs that are not eligible for federal aid match and include overhead construction engineering costs, utility and sewage repair, and construction enhancement not covered by FHWA. Cost estimates have been included for local projects funded from the federal redistributed Barney Circle allocations of \$98 million. The anticipated spending for these local projects was incorporated in the annual projections. Note that these funds also require a

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**Financial Statements**

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**DISTRICT OF COLUMBIA HIGHWAY TRUST FUND  
NOTES TO THE FINANCIAL STATEMENTS  
SEPTEMBER 30, 1999**

15-percent D.C. match. This matching requirement is obtained from the District's Highway Trust Fund.

- The District assumes that the \$5 million in the revolving fund account, which was borrowed from the District's Capital Operating Fund to establish the revolving fund bank account, will not require repayment prior to fiscal year 2004.

**Financial Statements**

**Forecasted Statements**

<b>Transportation Capital Program</b> Financial Forecasts		Highway Trust Fund FY 1999	Federal Aid FY 1999	Total FY 1999	Highway Trust Fund FY 2000	Federal Aid FY 2000	Total FY 2000
<b>Sources</b>							
Beginning trust fund balance		42,589,119	494,376,280	536,965,399	56,352,659	511,724,291	568,076,950
Interest earnings		2,336,187	0	2,336,187	3,360,262	0	3,360,262
Motor fuel tax		31,073,369	0	31,073,369	32,130,000	0	32,130,000
Federal aid obligation		0	106,483,505	106,483,505		112,949,214	112,949,214
<b>Total</b>		<b>\$75,998,675</b>	<b>\$600,859,785</b>	<b>\$676,858,460</b>	<b>\$91,842,921</b>	<b>\$624,673,505</b>	<b>\$716,516,426</b>
<b>Uses</b>							
Estimated project management cost		1,771,701	7,489,790	9,261,491	1,877,221	11,844,388	13,721,609
Estimated nonparticipating cost		2,752,056	0	2,752,056	1,766,012	0	1,766,012
Estimated design, site, construction, & equipment cost		15,122,259	81,645,704	96,767,963	22,786,922	123,575,061	146,361,983
<b>Total</b>		<b>\$19,646,016</b>	<b>\$89,135,494</b>	<b>\$108,781,510</b>	<b>\$26,430,155</b>	<b>\$135,419,449</b>	<b>\$161,849,604</b>
<b>ENDING BALANCE</b>		<b>\$56,352,659</b>	<b>\$511,724,291</b>	<b>\$568,076,950</b>	<b>\$65,412,766</b>	<b>\$489,254,056</b>	<b>\$554,666,822</b>
<b>REVOLVING FUND BALANCE</b>		<b>\$5,000,000</b>	<b>0</b>	<b>\$5,000,000</b>	<b>\$5,000,000</b>	<b>0</b>	<b>\$5,000,000</b>

Page 1

**Financial Statements**

**Transportation Capital Program**  
**Financial Forecasts**

	Highway Trust Fund FY 2001	Federal Aid FY 2001	Total FY 2001	Highway Trust Fund FY 2002	Federal Aid FY 2002	Total FY 2002
<b>Sources</b>						
Beginning trust fund balance	65,412,766	489,254,056	554,666,822	48,885,096	349,595,171	398,480,267
Interest earnings	3,092,421	0	3,092,421	2,148,449	0	2,148,449
Motor fuel tax	32,159,000	0	32,159,000	32,200,000	0	32,200,000
Federal aid obligation	0	110,000,000	110,000,000	0	110,000,000	110,000,000
<b>Total</b>	<b>\$100,664,187</b>	<b>\$599,254,056</b>	<b>\$699,918,243</b>	<b>\$83,233,545</b>	<b>\$459,595,171</b>	<b>\$542,828,716</b>
<b>Uses</b>						
Estimated project management cost	3,985,469	23,528,418	27,513,887	4,347,069	25,067,708	29,414,777
Estimated nonparticipating cost	3,472,520	0	3,472,520	3,440,169	0	3,440,169
Estimated design, site, construction, & equipment cost	44,321,102	226,130,467	270,451,569	43,025,124	220,185,539	263,210,663
<b>Total</b>	<b>\$51,779,091</b>	<b>\$249,658,885</b>	<b>\$301,437,976</b>	<b>\$50,812,362</b>	<b>\$245,253,247</b>	<b>\$296,065,609</b>
<b>ENDING BALANCE</b>	<b>\$48,885,096</b>	<b>\$349,595,171</b>	<b>\$398,480,267</b>	<b>\$32,421,183</b>	<b>\$214,341,924</b>	<b>\$246,763,107</b>
<b>REVOLVING FUND BALANCE</b>	<b>\$5,000,000</b>	<b>0</b>	<b>\$5,000,000</b>	<b>\$5,000,000</b>	<b>0</b>	<b>\$5,000,000</b>

Page 2

**Financial Statements**

**Transportation Capital Program**  
**Financial Forecasts**

	Highway Trust Fund FY 2003	Federal Aid FY 2003	Total FY 2003	Highway Trust Fund FY 2004	Federal Aid FY 2004	Total FY 2004
<b>Sources</b>						
Beginning trust fund balance	32,421,183	214,341,924	246,763,107	25,820,728	133,135,427	158,956,155
Interest earnings	1,509,222	0	1,509,222	1,374,187	0	1,374,187
Motor fuel tax	32,228,000	0	32,228,000	32,256,000	0	32,256,000
Federal aid obligation	0	110,000,000	110,000,000	0	110,000,000	110,000,000
<b>Total</b>	<b>\$66,158,405</b>	<b>\$324,341,924</b>	<b>\$390,500,329</b>	<b>\$59,450,915</b>	<b>\$243,135,427</b>	<b>\$302,586,342</b>
<b>Uses</b>						
Estimated project management cost	4,266,519	21,815,657	26,082,176	3,463,896	17,390,645	20,854,541
Estimated nonparticipating cost	2,753,119	0	2,753,119	2,199,237	0	2,199,237
Estimated design, site, construction, & equipment cost	33,318,039	169,390,840	202,708,879	26,663,883	137,225,125	163,889,008
<b>Total</b>	<b>\$40,337,677</b>	<b>\$191,206,497</b>	<b>\$231,544,174</b>	<b>\$32,327,016</b>	<b>\$154,615,770</b>	<b>\$186,942,786</b>
<b>ENDING BALANCE</b>	<b>\$25,820,728</b>	<b>\$133,135,427</b>	<b>\$158,956,155</b>	<b>\$27,123,899</b>	<b>\$88,519,657</b>	<b>\$115,643,556</b>
<b>REVOLVING FUND BALANCE</b>	<b>\$5,000,000</b>	<b>0</b>	<b>\$5,000,000</b>	<b>\$5,000,000</b>	<b>0</b>	<b>\$5,000,000</b>

Page 3

**Financial Statements**

**Transportation Capital Program  
Financial Forecasts**

	Highway Trust Fund FY 2005	Federal Aid FY 2005	Total FY 2005	Highway Trust Fund FY 2006	Federal Aid FY 2006	Total FY 2006
<b>Sources</b>						
Beginning trust fund balance	27,123,899	88,519,657	115,643,556	34,702,464	64,816,999	99,519,463
Interest earnings	1,641,499	0	1,641,499	1,841,229	0	1,841,229
Motor fuel tax	32,285,000	0	32,285,000	32,313,000	0	32,313,000
Federal aid obligation	0	110,000,000	110,000,000	0	110,000,000	110,000,000
<b>Total</b>	<b>\$61,050,398</b>	<b>\$198,519,657</b>	<b>\$259,570,055</b>	<b>\$68,856,693</b>	<b>\$174,816,999</b>	<b>\$243,673,692</b>
<b>Uses</b>						
Estimated project management cost	3,270,784	16,642,468	19,913,252	6,177,905	14,764,248	20,942,153
Estimated nonparticipating cost	1,884,607	0	1,884,607	2,777,838	0	2,777,838
Estimated design, site, construction, & equipment cost	21,192,543	117,060,190	138,252,733	25,232,818	120,845,573	146,078,391
<b>Total</b>	<b>\$26,347,934</b>	<b>\$133,702,658</b>	<b>\$160,050,592</b>	<b>\$34,188,561</b>	<b>\$135,609,821</b>	<b>\$169,798,382</b>
<b>ENDING BALANCE</b>	<b>\$34,702,464</b>	<b>\$64,816,999</b>	<b>\$99,519,463</b>	<b>\$34,668,132</b>	<b>\$39,207,178</b>	<b>\$73,875,310</b>
<b>REVOLVING FUND BALANCE</b>	<b>\$5,000,000</b>	<b>0</b>	<b>\$5,000,000</b>	<b>\$5,000,000</b>	<b>0</b>	<b>\$5,000,000</b>

Page 4

# Comments From the District of Columbia

GOVERNMENT OF THE DISTRICT OF COLUMBIA  
Office of the Chief Financial Officer



Natwar M. Gandhi  
Chief Financial Officer

October 11, 2000

CONFIDENTIAL

Jeffrey C. Steinhoff  
Assistant Comptroller General  
Accounting and Information Management Division  
General Accounting Office  
441 G Street, NW  
Washington, DC 20548

Dear Mr. Steinhoff:

Subject: Response to the District of Columbia Highway Trust Fund's for FY 1999 and 1998

I am in receipt of your draft report entitled District of Columbia Highway Trust Fund's Fiscal Years 1999 and 1998 Financial Statements. As requested, I am providing comments on the General Accounting Office's (GAO) recommendations made in the respective report. My comments are as follows:

**The GAO reaffirmed its recommendation that the Deputy Chief Financial Officer for the Office of Tax and Revenue (OTR) enforce the implementation of the bond licensing requirements for motor fuel wholesalers operating in the District.**

The Chief Financial Officer (CFO) agrees with the GAO recommendation. D.C. Code Section 47-2303 (a) (5) states, in part, "at the time of applying for such license the applicant shall pay to the Collector of Taxes as an annual license fee the sum of \$5 and shall file with the Mayor of the District of Columbia a bond in the form to be prescribed by the Mayor, in the approximate sum of 3 times the average monthly motor fuel tax due from said importer during the next preceding 12 months, or estimated to be due in the next succeeding 12 months." The GAO found that the OTR is in compliance with D.C. Code Section 47-2303 in that all importers are to file a bond prior to issuance of license.

However, in the absence of a twelve-month filing, the OTR bond amount was calculated based on the number of actual filed returns, and the total was divided by twelve. The average accounting method recommended by the GAO requires the amount to be annualized before an average is computed. The OTR has revised its system to calculate the bond amounts using an average accounting method in the absence of 12 months of return data.

441 4th Street, N.W., Suite 1150N, Washington, D.C. 20001 202/727-2476 www.dccfo.com

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**Appendix I**  
**Comments From the District of Columbia**

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Response to the District of Columbia Highway Trust Fund's  
FY 1999 and 1998  
October 11, 2000  
Page 2 of 3

**The GAO recommended that the CFO for the Department of Public Works (DPW) establish procedures to properly calculate the percentage of projects costs to be charged to the Fund or billed to the Federal Highway Administration.**

The CFO agrees with the GAO recommendation. The Department of Public Works (DPW) internal controls are well established, and in fact, resulted in the identification of the billing discrepancies prior to the GAO audit. The DPW put into place, in early fiscal year 1999, a project crosswalk report. The use of the report resulted in identifying numerous allocation errors caused when implementing the new System of Accounting and Reporting (SOAR) system. These errors which affected the project profiles and budget, obligation, expenditure and revenue amounts, required individual adjustment. These adjustments, however, could not be made until the SOAR biller module (i.e. the Federal Aid Billing system) was reprogrammed to accept these adjustments. The reprogramming was completed in October 1999 and the DPW immediately began making the necessary adjustments (i.e. in fiscal year 2000). The DPW continues to utilize the project crosswalk report, and any discrepancies found are discussed and if necessary, corrections made. This information is available to accounts payable staff every two weeks, or as necessary, in order to review and correct allocation codes.

**The GAO recommended that the DPW CFO examine all expenditure transactions for fiscal year 2000 to ensure that the capital expenditure costs that were charged to the Fund or billed to the Federal Highway Administration are correct.**

The CFO agrees with the GAO recommendation. The DPW is presently initiating an internal review of all codes established for each project prior to grant award in the SOAR system. DPW will conduct internal control audits at least twice a year prior to year-end closing to assure that project cost allocations are recorded properly and that Fund billings are accurate and valid expenses.

**The GAO recommended that the CFO establish additional procedures requiring the communication and evaluation of all changes made during the review process to the appropriate officials or agencies involved in preparing the revised data.**

The CFO agrees with the GAO recommendation, and will ensure that the Deputy Chief Financial Officer for the Office of Budget and Planning revises the District's budget preparation procedures to include additional procedures during the review process for the preparation of the forecasted statements.

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**Appendix I**  
**Comments From the District of Columbia**

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Response to the District of Columbia Highway Trust Fund's  
FY 1999 and 1998  
October 11, 2000  
Page 3 of 3

If there are any questions feel free to contact me at (202) 727-2476, or your staff may contact Wilma G. Matthias, Director Internal Audit and Internal Security at (202) 442-6433.

Sincerely,



Natwar M. Gandhi  
Chief Financial Officer

cc: Wayne Upshaw, DCFO/OPB  
Anthony Pompa, DCFO/OFOS  
Herbert Huff, DCFO/OTR  
Wilma Matthias, Director, IAIS  
Pamela Graham, CFO/DPW

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## Status of Prior Years' Audit Recommendations

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The results of our efforts to audit the Fund's fiscal year 1998, 1997, and 1996 Financial Statements were presented in our reports entitled *Financial Audit: District of Columbia Highway Trust Fund's Fiscal Years 1998 and 1997 Financial Statements* (GAO/AIMD-99-263, September 28, 1999), *Financial Audit: District of Columbia Highway Trust Fund's Fiscal Year 1997 Financial Statements* (GAO/AIMD-98-254, September 30, 1998), and *Financial Audit: District of Columbia Highway Trust Fund's 1996 Financial Statements* (GAO/AIMD-98-30, December 15, 1997). The three reports included a total of 23 recommendations addressing internal control weaknesses. Four of these recommendations were implemented during the fiscal year 1998 audit period and five were implemented during the 1997 audit period. We determined the status of the remaining 14 recommendations, which are listed below, based on our fiscal year 1999 audit work and discussions with District officials. We plan to update our assessment of the District's responses as part of our fiscal year 2000 audit.

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**Appendix II**  
**Status of Prior Years' Audit**  
**Recommendations**

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**Table 1: Status of Our 1998, 1997, and 1996 Recommendations**

<b>Year(s)</b>	<b>Recommendation</b>	<b>Status</b>
<b>To the Deputy Chief Financial Officer (DCFO) for the Office of Finance and Treasury</b>		
1998	Enforce the segregation of duties between the preparer of daily reconciliations and the reviewer.	AC
	Require that a supervisor independently review all teller reconciliations.	AC
<b>To the CFO</b>		
1998	Establish written procedures governing the processes for preparing, coordinating, and approving the financial forecasts prior to submission to the Congress. These procedures should identify the parties responsible and time frames for the (1) development of the underlying assumptions and methodologies for each line item and (2) overall preparation and presentation of the financial forecasts.	AC
<b>To the DCFO for the Office of Tax and Revenue</b>		
1998	Enforce procedures to require monthly transfers of motor fuel receipts from the General Fund to the Highway Trust Fund and require the District to reimburse the Fund for potential lost interest if the receipts are transferred after 30 days.	AC
	Enforce implementation of the licensing requirement (D.C. Code Ann. Section 47-2303) for a bond in the approximate sum of three times the average monthly motor fuel tax due from each wholesaler during the preceding 12 months or an estimate of the succeeding 12 months.	AP
1997	Establish control procedures to investigate instances in which unlicensed wholesalers submit tax returns or licensed wholesalers do not submit monthly returns.	AC
	Establish control procedures to (1) review each monthly tax return for completeness and accuracy, (2) reject incomplete and erroneous monthly tax returns, and (3) contact wholesalers if returns are rejected and follow up to ensure complete, accurate, and adequately documented monthly tax returns.	AC

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**Appendix II**  
**Status of Prior Years' Audit**  
**Recommendations**

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<b>Year(s)</b>	<b>Recommendation</b>	<b>Status</b>
1996	Revise procedures to require daily logging, endorsing, and depositing of motor fuel tax receipts received by the District or establish a lockbox system for the processing and depositing of such receipts to improve cash management and enhance the control environment.	AC
	Establish the procedures to verify the completeness of motor fuel tax receipts from wholesaler fuel sales to retailers or for fuel consumed by construction, bus, and other companies that buy at the wholesale level and consume that fuel within the District. Examples of such procedures are on-site inspections and reviews of wholesaler shipping documents and confirmation with retailers and construction and bus companies annually or on a scheduled but random-sample basis.	AC
<b>To the Director of the Office of Information Systems</b>		
1998, 1997, and 1996	Strengthen physical security over the facilities, systems, and data by controlling all physical access to LAN centers and protecting all backup files.	NA
	Strengthen logical security and better control the access to data and systems by conducting a security risk analysis, restricting access to security functions, maintaining security access files, and applying LAN modification updates uniformly.	NA
	Segregate incompatible duties and provide the appropriate supervisory review and, if it is deemed necessary that any one person maintain complete access, establish controls to ensure that such activities are monitored.	NA
	Ensure service continuity by completing disaster recovery plans and testing them at both LAN centers.	NA
	Assess the Y2K vulnerabilities and develop an evaluation and conversion plan.	NA

**Legend:**

AC – action complete

AP – action in progress

NA – no longer applicable (new recommendations will be issued in a separate report)

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# GAO Contacts and Staff Acknowledgments

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## GAO Contacts

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## Acknowledgments

In addition to those named above, Richard Cambosos, Julia Ziegler, Deborah Silk, Jamie Sullivan, and Robert Preshlock made key contributions to this report.

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